

Houston US Housing Market Update and Outlook

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Presented by:



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HOUSEHOLD SENTIMENT



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4 Takeaways from our Housing Sentiment Survey

Household Sentiment

Quantifying Market Pessimism

MAR 2023 SURVEY INSIGHTS REPORT

Including results from our February/March 2023 survey of 1,325 homeowners and renters with household income of \$50,000+

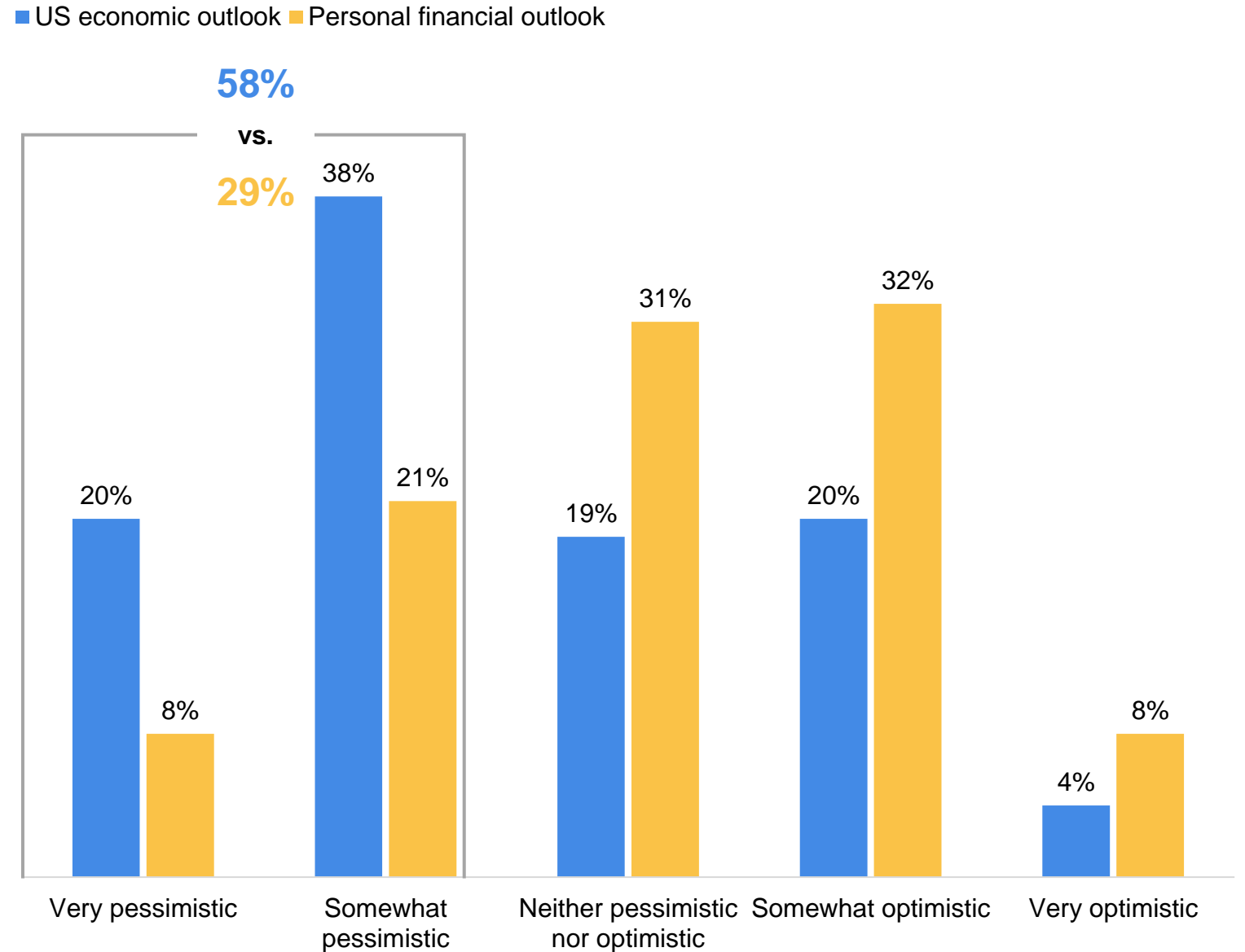


NEW HOMETRENDS
INSTITUTE

by John Burns Research & Consulting

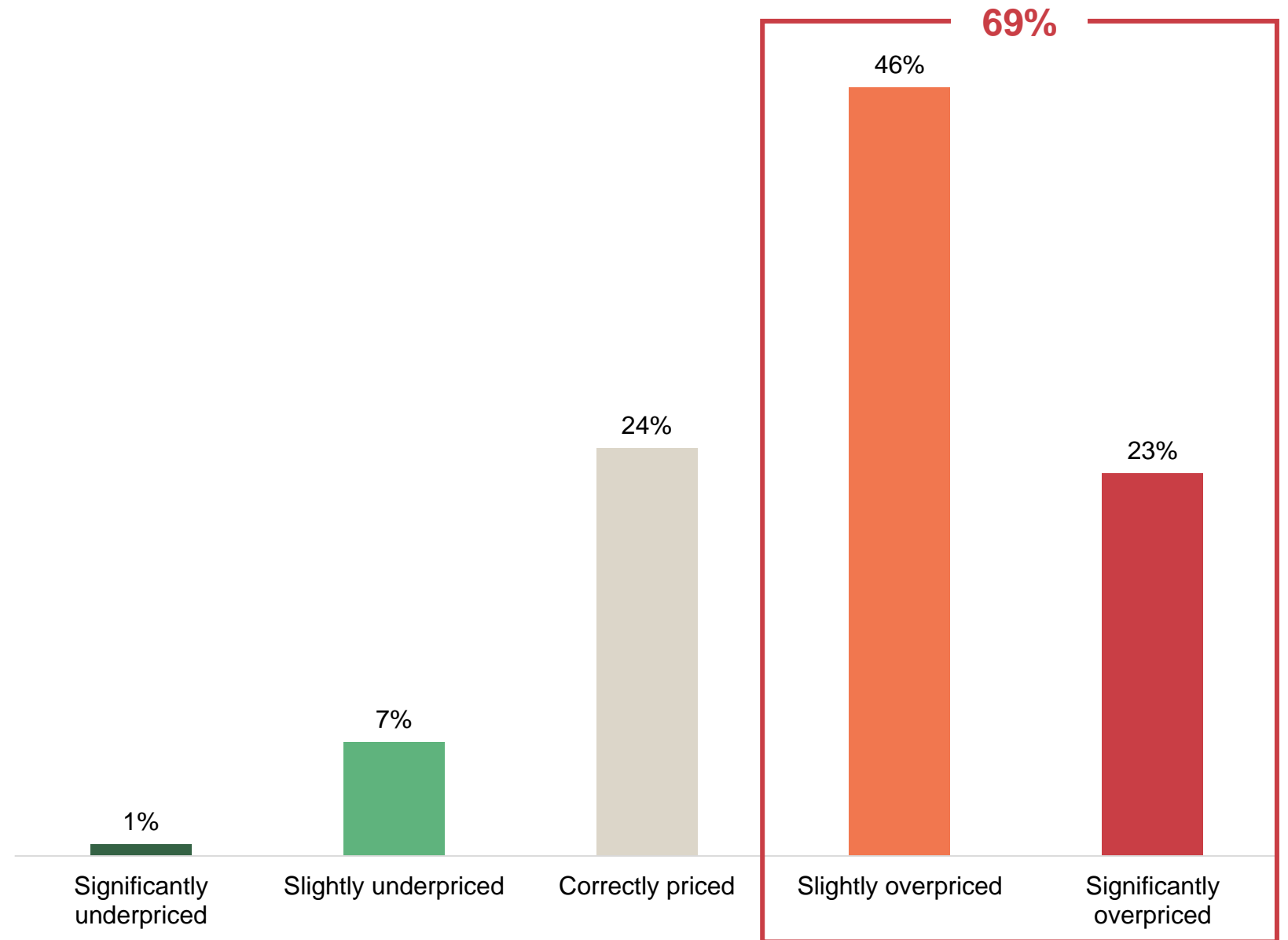
1. Consumers are pessimistic about the economy, but personal financial outlooks lean optimistic.

Expected trajectory of the US economy over the next 12 months
Share of homeowners and renters with household income of \$50,000+



2. Housing market sentiment is poor: 69% of households believe homes are overpriced.

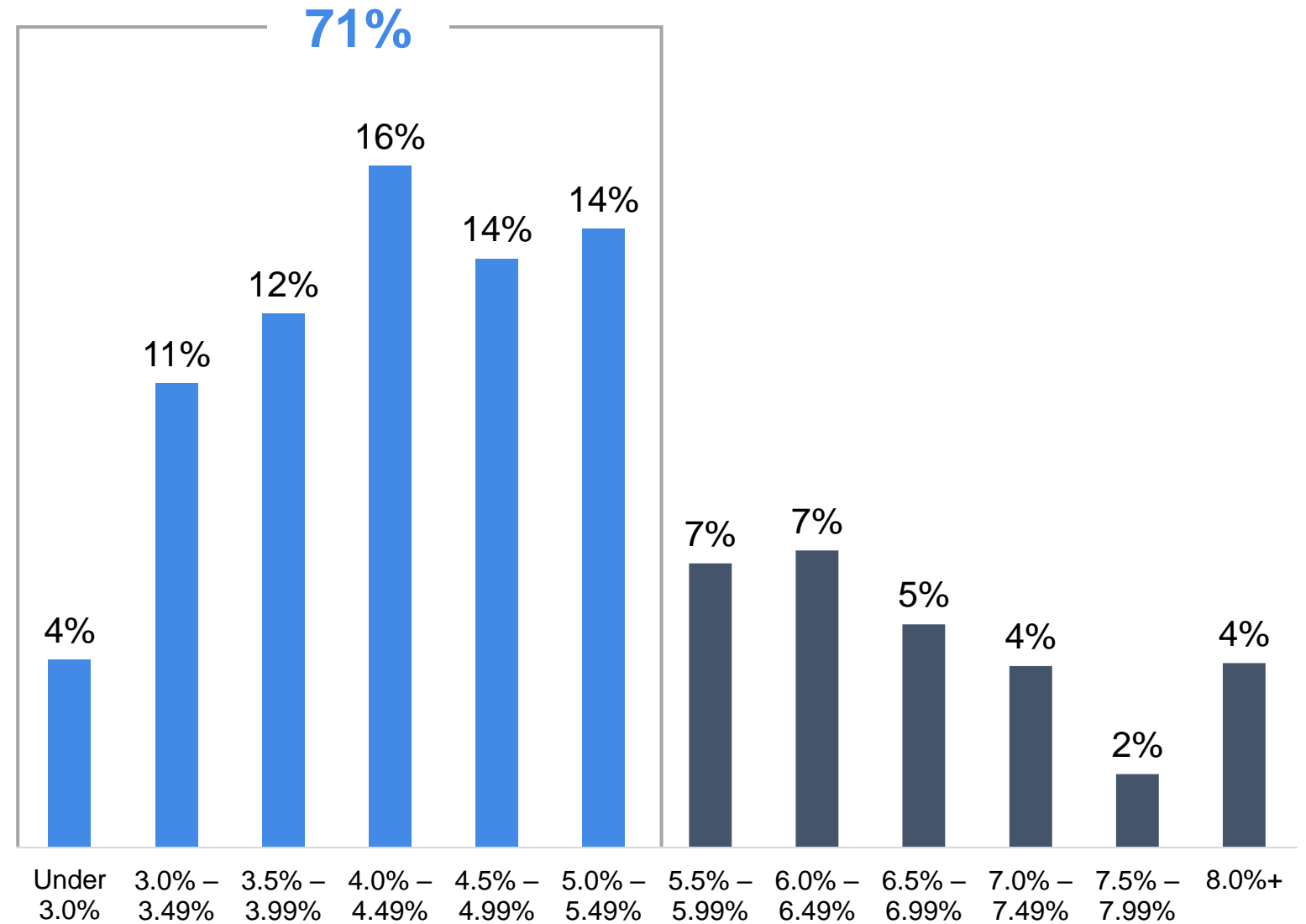
Belief whether homes in their area are currently underpriced or overpriced
Share of homeowners and renters with household income of \$50,000+



3. The 'magic' mortgage rate is 5.5% or less

Highest acceptable mortgage rate for a new home purchase

Share of homeowners and renters with household income of \$50,000+ who plan to purchase their next home with a mortgage, excluding those who are unsure about the maximum rate



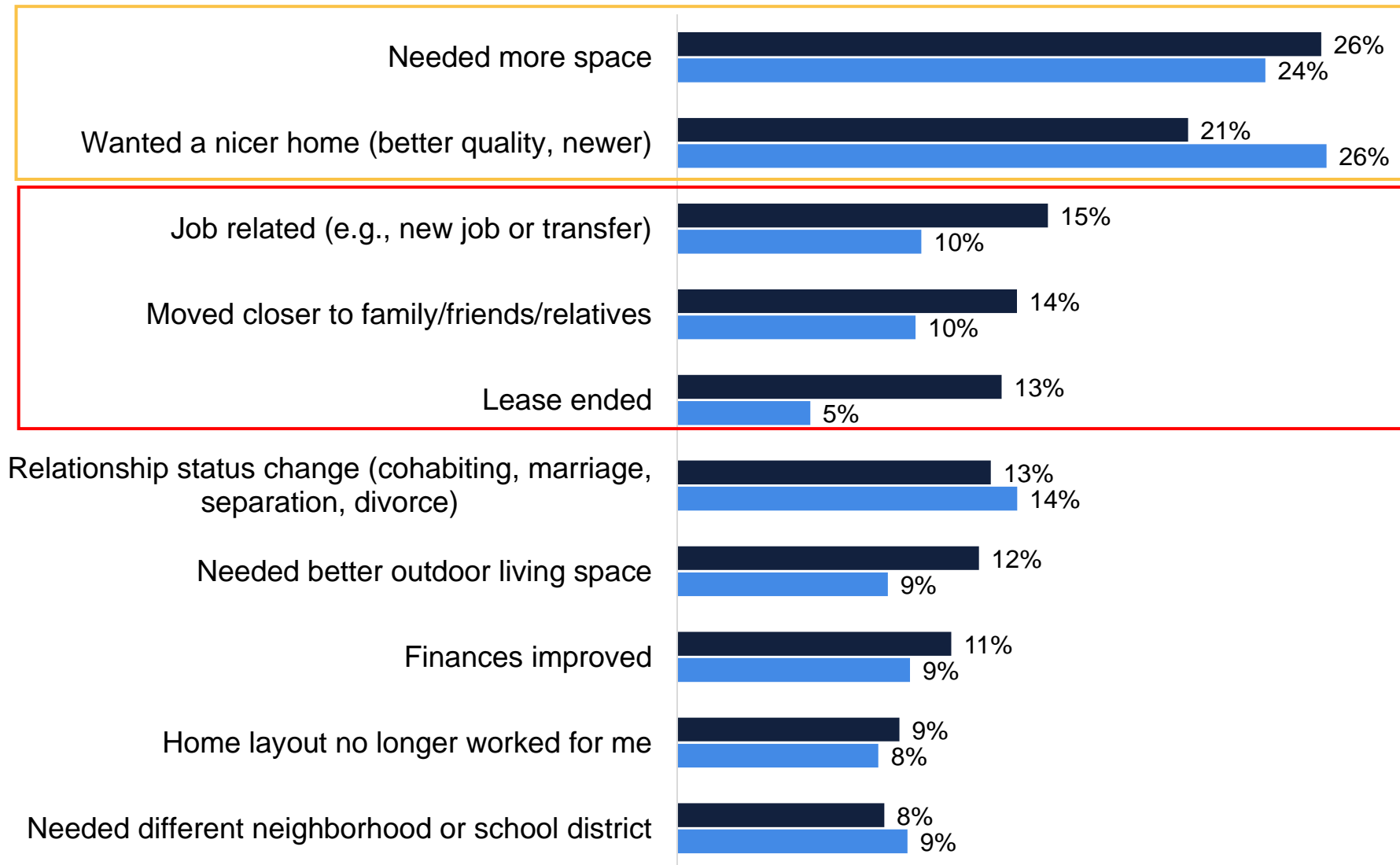
4. The promise of more space and better quality still drive the most moves, BUT post-pandemic job and family-related moves are surging by 33-40%.

...jump in 'lease ended' indicates heightened lease-to-ownership pipeline activity

Top 10 reasons for moving out of previous home by year moved

Share of homeowners and renters with household income of \$50,000+, excluding those who have never moved

■ 2020–2023 ■ 2019 or earlier



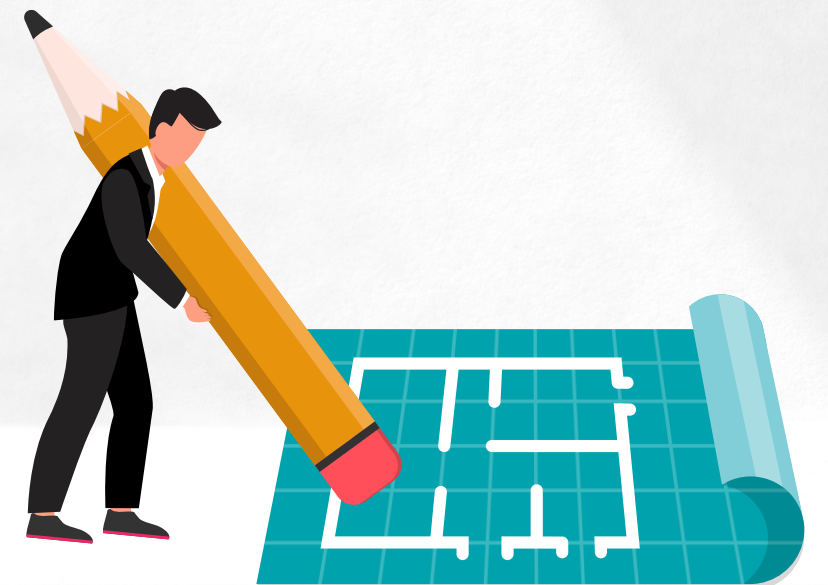
01

Building Efficiently

Builders are stripping out features and lowering specification levels. Homes will continue to shrink, and density will rise, even in markets that have eluded it thus far.

“There is only so much spec you can take out of the house. What we are focused on is, **how else can we impact payment more holistically?**”

Matt Zaist
CEO of The New Home Company



02

Differentiating

Smaller, denser homes will attract consumers if paired with community gathering spaces and experiences. Flex spaces, offices, and multigenerational options elevate new homes above resale.



“Today’s buyers want conveniences and experiences.
It is not enough to build just pools and trails anymore.”

Brian Carlock

Senior Vice President of Acquisitions at Hillwood Communities

03

Selling Differently

Salespeople are appealing to emotion over investment. Consumers now want to talk finances first; redirect their focus to what their current home is missing.



“If you want a people-centered approach,
you have to understand people.”

Mark Meyer
Principal and Chairman of the Board at TBG Partners

04

Goodbye Trends; Hello Vision

The new trend is no trend. Designers are giving less weight to what is in style and designing with a strong point of view instead.



“Stop chasing trends and the next biggest thing.
We are all working now to seek a deeper understanding and designing better for it.”

Angela Harris
CEO and Principal at TRIO

Data and Analysis



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HOUSING AFFORDABILITY

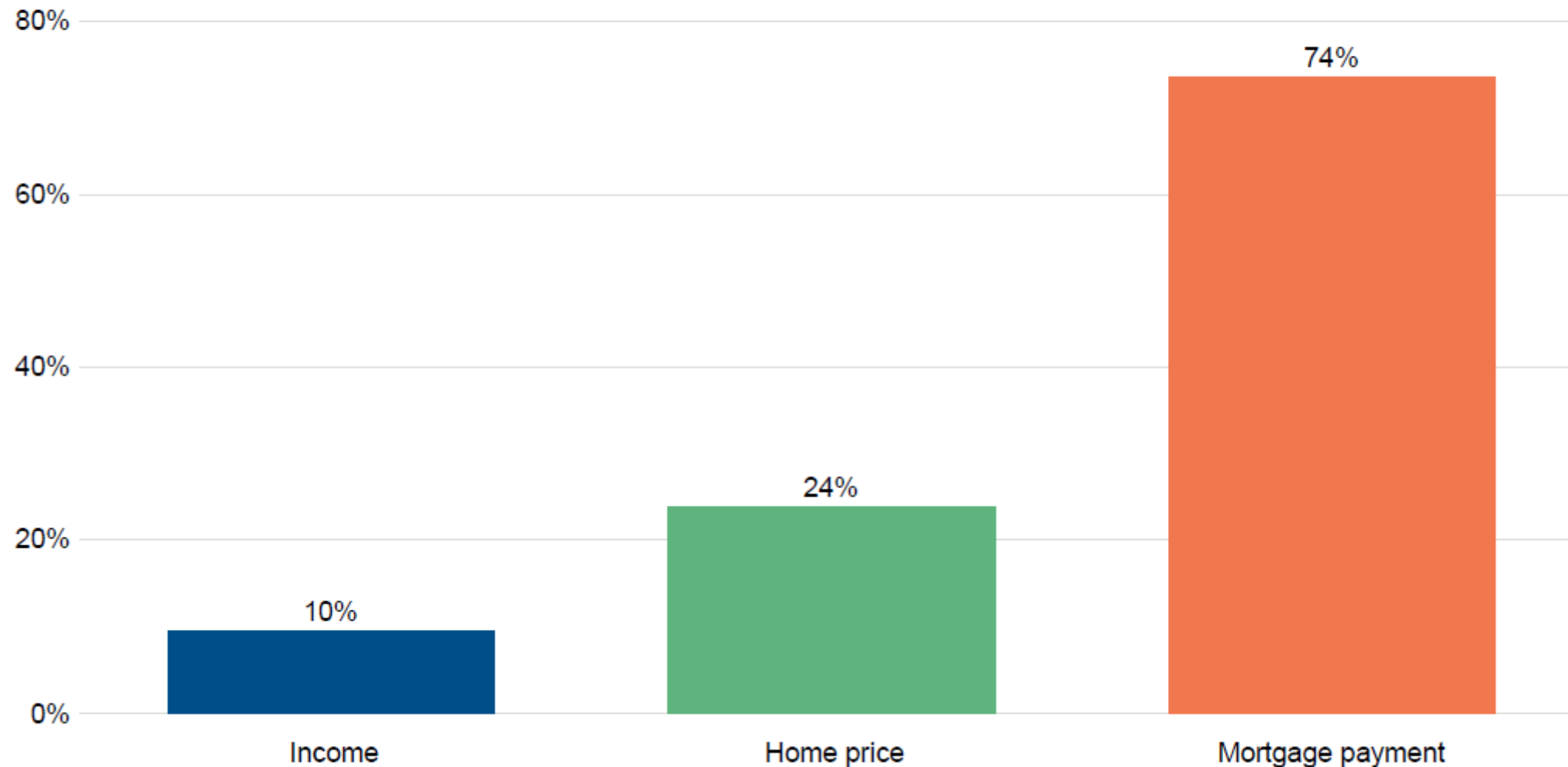


Income, Price, and Mortgage Payment Growth from 2020 Lows

Mortgage payments have increased 74% since the 2020 lows, while median incomes only gained 10%. The disparity between home price and income growth has contributed to worsening affordability since 2020.

Income, Home Price, and Mortgage Payment Growth

From 2020 lows ■ Income ■ Home price ■ Mortgage payment



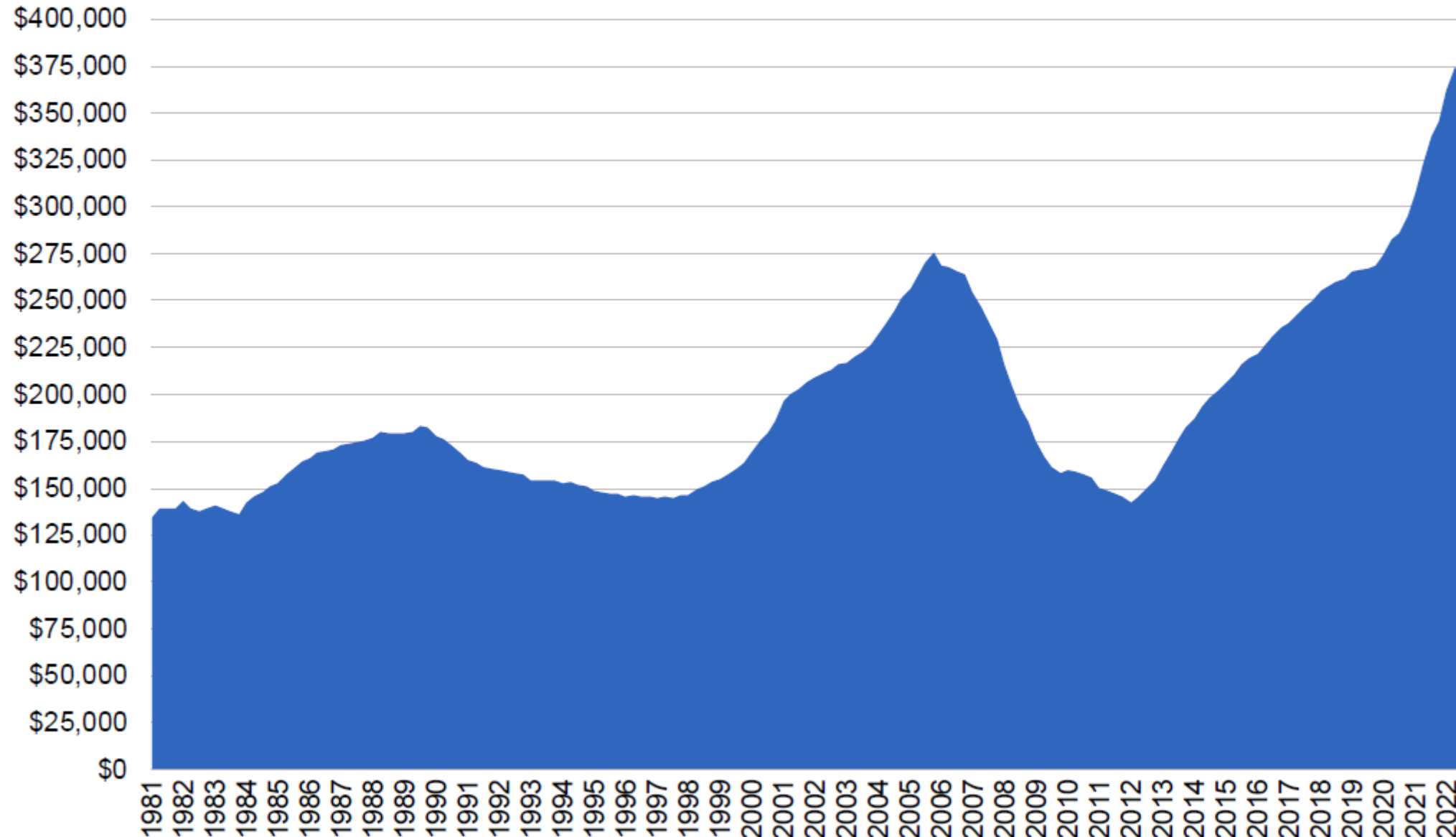
Our definition of median housing payment assumes the purchase of a home at 80% of the market's median-priced resale home, 5% down payment, and a 30-year, fixed-rate mortgage. Payment is PITI and includes mortgage insurance. We divide the median housing payment by the median income to calculate the ratio.

Source: John Burns Real Estate Consulting, LLC (Data: Feb-23, Pub: Mar-23)

Homeowner Equity

Homeowners have an average of \$361K in equity in their homes as of 4Q22, near an all-time high.

Inflation-Adjusted Homeowner Equity per Owned Household



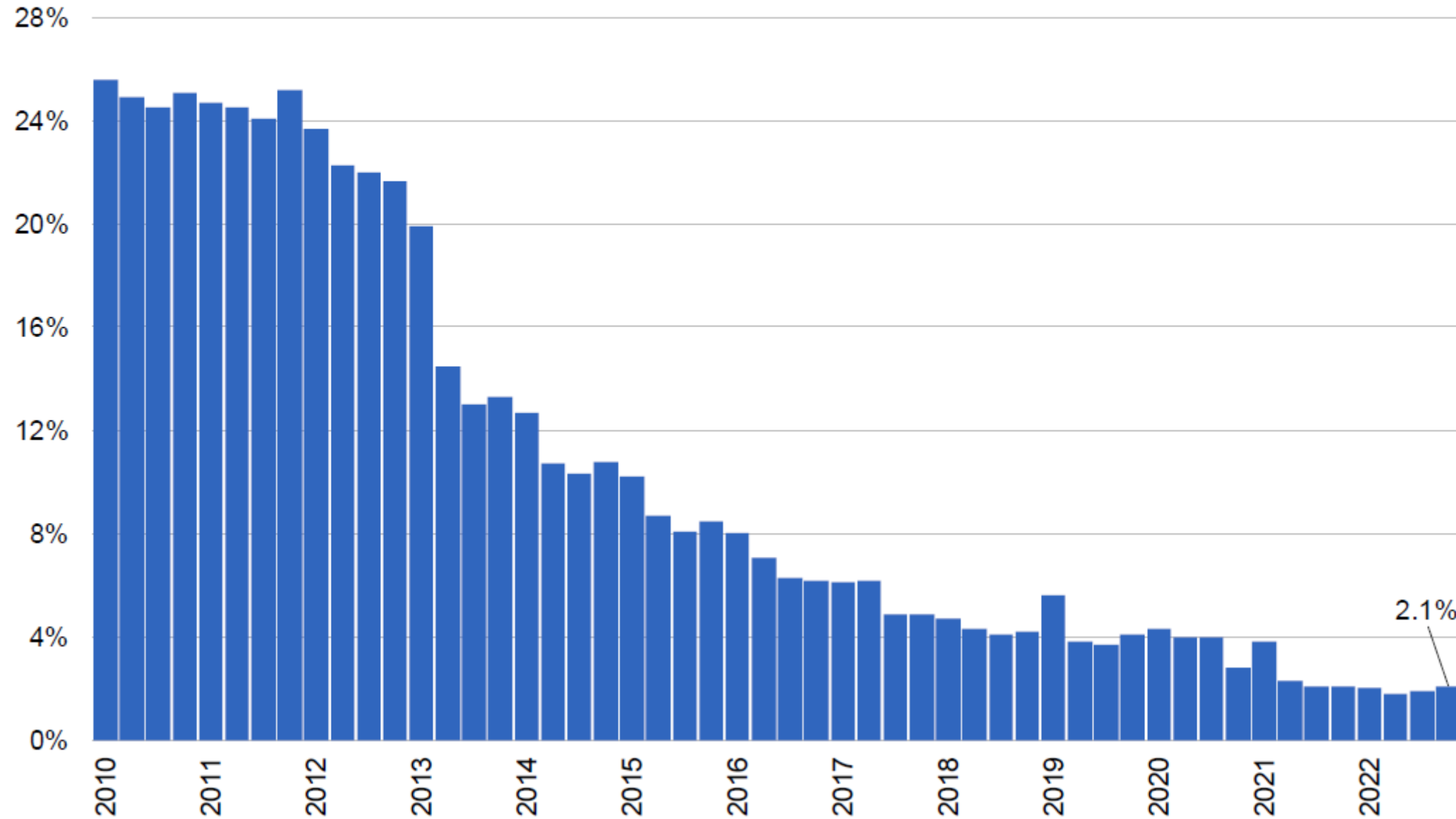
Sources: Federal Reserve; Census Bureau; John Burns Real Estate Consulting, LLC (Data: 4Q22, updated quarterly†)

Pub: Mar-23

Percentage of Negative Equity Homes

Nationally, the number of negative equity mortgages decreased YOY to 2% of total mortgages.

Percentage of Negative Equity Homes



Source: CoreLogic (Data: 4Q22, updated quarterly)

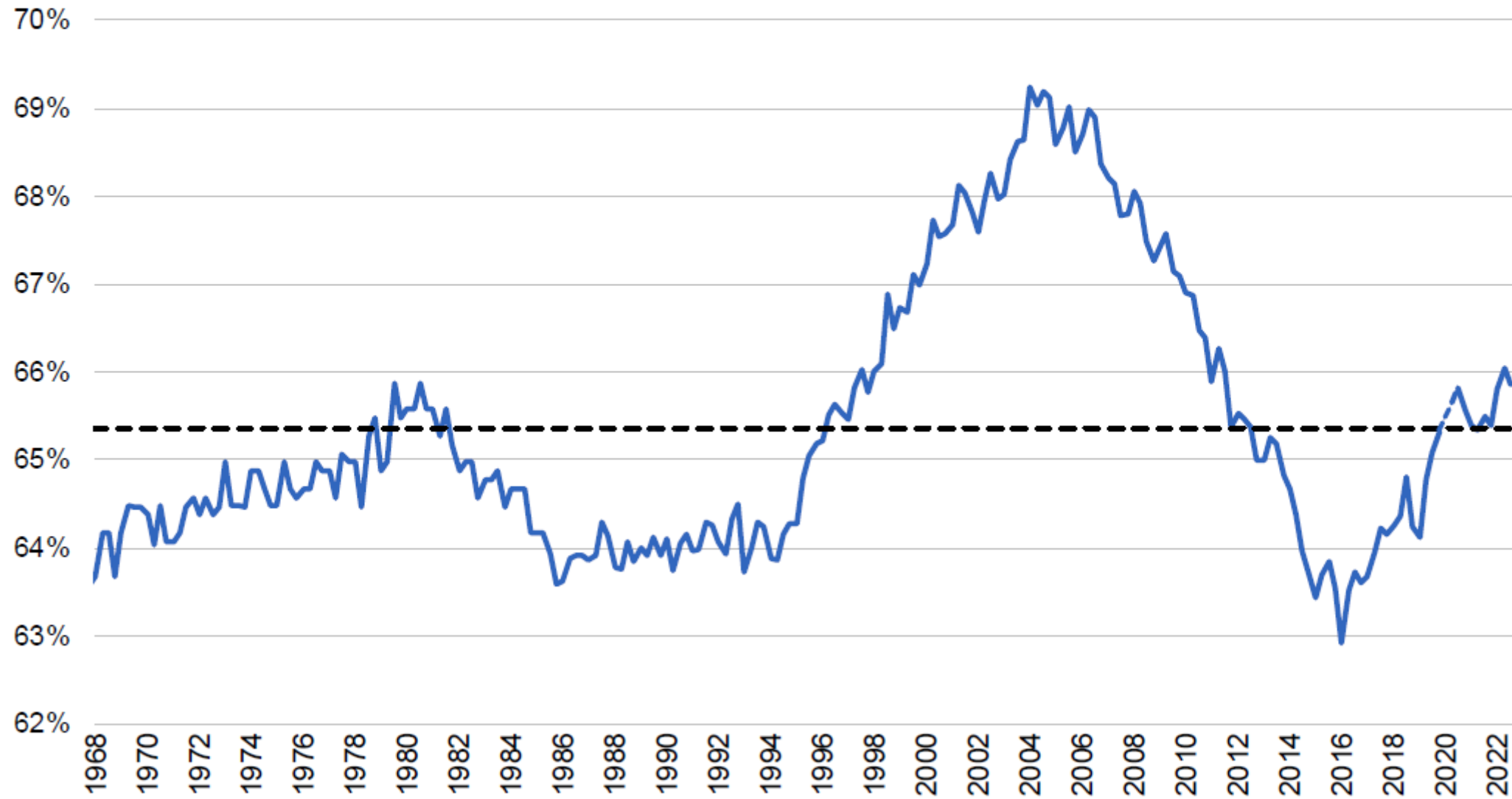
Pub: Mar-23

Homeownership

At 65.9% in 4Q22, the homeownership rate is slightly above its historical average.

Census Headline Homeownership Rate

— Homeownership rate = 65.9% - - - Historical average* = 65.4%



Note: The pandemic complicated the Census Bureau's collection process in 2020. We have removed the data for this period.

Sources: U.S. Census Bureau; John Burns Real Estate Consulting, LLC (Data: 4Q22, updated quarterly†)

*Historical average: 2Q68 through current

Pub: Mar-23

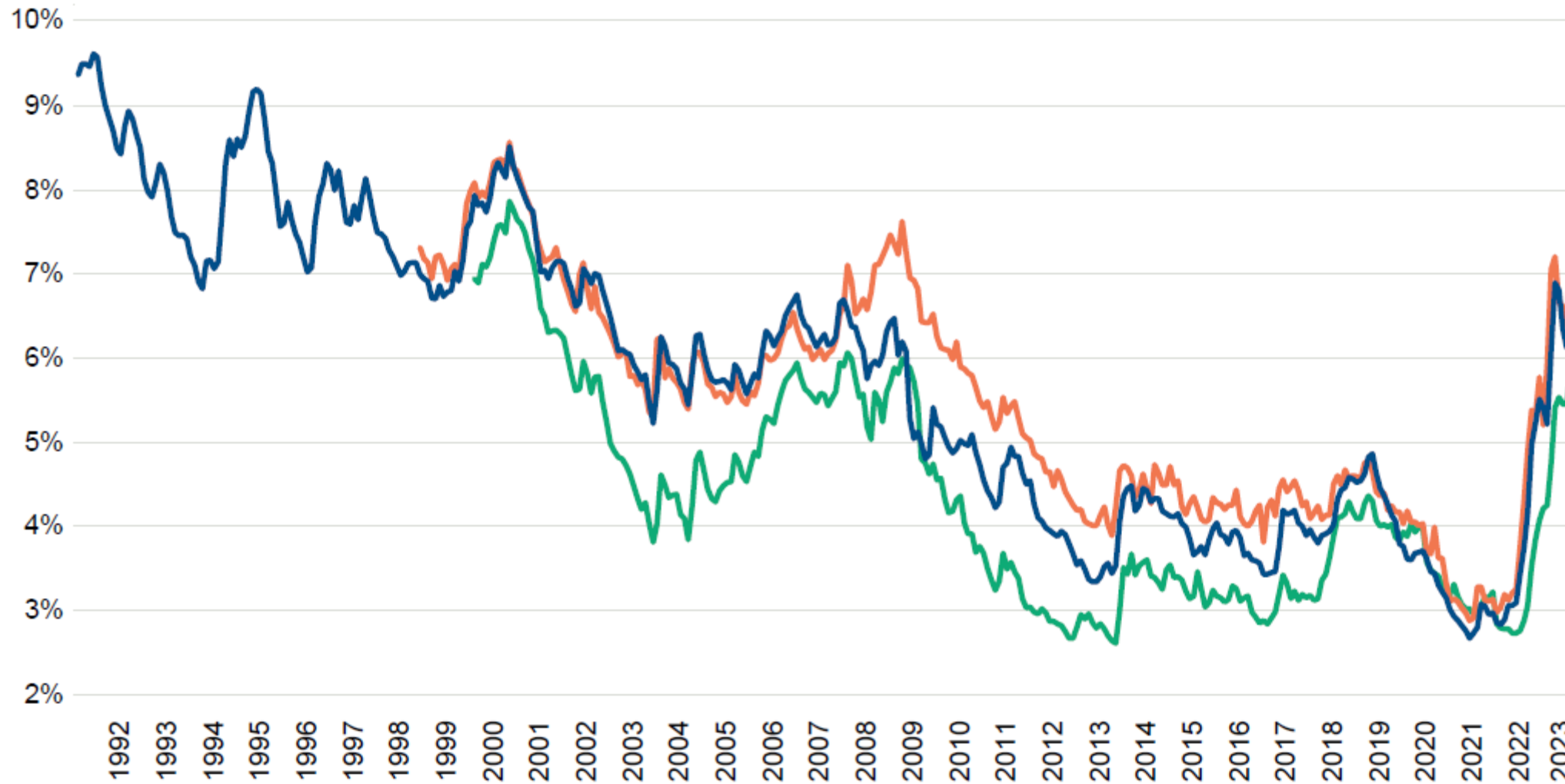
MORTGAGE RATES

Mortgage Rates

The 30-year fixed conventional mortgage rate rose to 6.5% in February.

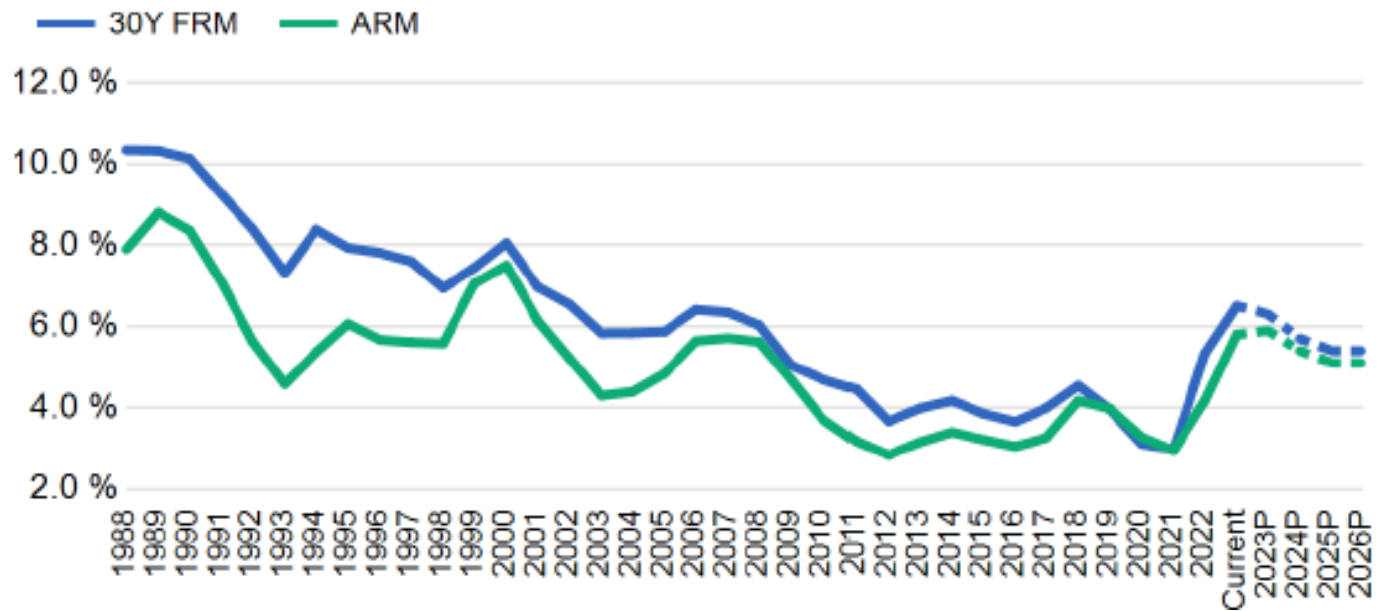
Mortgage Rates

Fixed, 30-year jumbo mortgage = 7.06%
Fixed, 30-year conventional mortgage = 6.50%
5-year adjustable rate mortgage = 5.80%



Note: the 5-year adjustable rate mortgage is the 5/1 rate, which is a 5 year fixed rate that adjusts annually.

ANNUAL AVERAGE MORTGAGE RATE

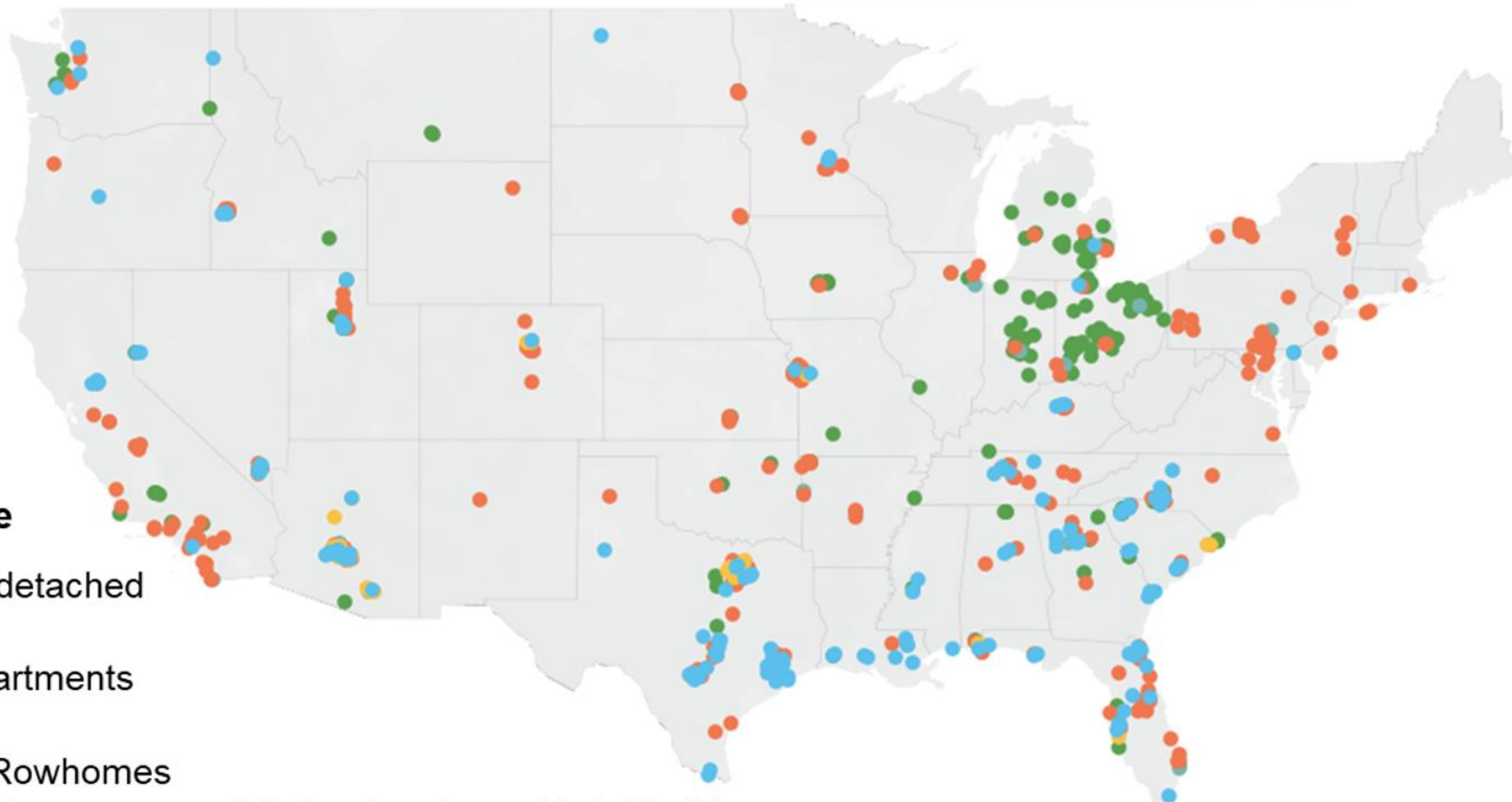


	Annual Averages	
	Fixed	ARM
2023P	6.3%	5.9%
2024P	5.7%	5.4%
2025P	5.4%	5.1%
2026P	5.4%	5.1%

Build To Rent

Our database of BTR communities continues to grow – now +/-1,000 active projects plan another 700+ in the planning stages

Active Dedicated Single-Family Build-to-Rent Communities in the US with 25+ Units



Community Type

- Single-family detached
- Mixed
- Horizontal apartments
- Townhomes
- Single-Level Rowhomes

* that we have been able to identify
Please don't share. If you know others who would like these slides, please have them email Colby Fitschen at cfitschen@realestateconsulting.com.

44% of the SFR sector stopped buying in 4Q22.

We surveyed the owners of 272K professionally managed single-family rental homes across 71 markets from February 21–March 13 and learned:

Operators are acquiring far fewer homes as their cost of capital jumps and market conditions soften compared to 2Q22 (both asset values and rent growth).

- 44% reported not making any acquisitions at all during 4Q22.
- For the 56% who were acquiring homes, their acquisition breakdown is as follows:
 - 46% of homes acquired via one-off resale homes, down from 65% in 4Q21
 - 20% of acquisitions from building new homes to rent, up from 13% in 4Q21
 - 14% of acquisitions from portfolios, up from 2% in 4Q21
 - 12% of acquisitions from iBuyers, jumping from 2% in 4Q21
 - This percentage likely jumped at the end of 2022 due to some iBuyers exiting the business and many offloading inventory at more discounted prices than other sellers.
 - 7% of acquisitions from home builders, falling from 17% in 4Q21
 - SFR operators purchased homes from builders at an average -7% discount in 4Q22.

Who Rents Newer SFR or BTR Homes?

Renter profiles will vary based on the type of home being rented and the price of the rent. Based on JBREC's research, discussion with BTR operators, and published information on the demographic profiles of renters who rent newer Single-Family Rental homes, the typical renter(1) is generally:

- ❖ Affluent, with average household incomes ranging from about \$70,000 well over \$150,000 or an **average above \$100,000** per year.
- ❖ Educated, with the **majority having college degrees.**
- ❖ Married; approximately **38% to 59% are married, really varies by product.**
- ❖ Multi-person; average is **3.2 people per household.**
- ❖ Older, with the **average age of about 40** years old. Around 78% are 24 to 54 years old.



- ❖ 60% to 70% of traditional detached rental homes are occupied by families with children (smaller villa-style homes have far fewer kids, 15% or less)
- ❖ **50% or more have pets**
- ❖ Single-Family Rental tenants work in industries similar to homeowners. Jobs are diverse, including teachers, government workers, medical related, service/sale industries, professionals, self employed, and retirees

1) This profile was based on a review of demographic profiles of select active BTR communities, discussions with BTR operators, and profiles disclosed by SFR REITs. It is not a comprehensive view of all single-family renters in BTR communities.

Are these For-Sale Homes or For-Rent Homes?

Both of these model homes are in the same master planned community. One is a model for a dedicated single-family rental neighborhood and one is a model for a for-sale neighborhood.



For-Sale Home



For-Rent Home

Are these For-Sale Homes or For-Rent Homes?

Similar to the prior slide, these model homes are in the same master planned community. One is a model for a dedicated single-family rental neighborhood, and one is a model for a for-sale neighborhood. Can you tell the difference?



For-Rent Home



For-Sale Home

Locations – Better than Most Expect

BTR Submarket Distribution

Of the active BTR projects in our database, 49% are in submarkets we rank as Most Desirable / More Desirable, while 27% would be rated Less Desirable / Least Desirable. Note: Less Desirable / Least Desirable markets can support successful projects, they just need to be more affordable.

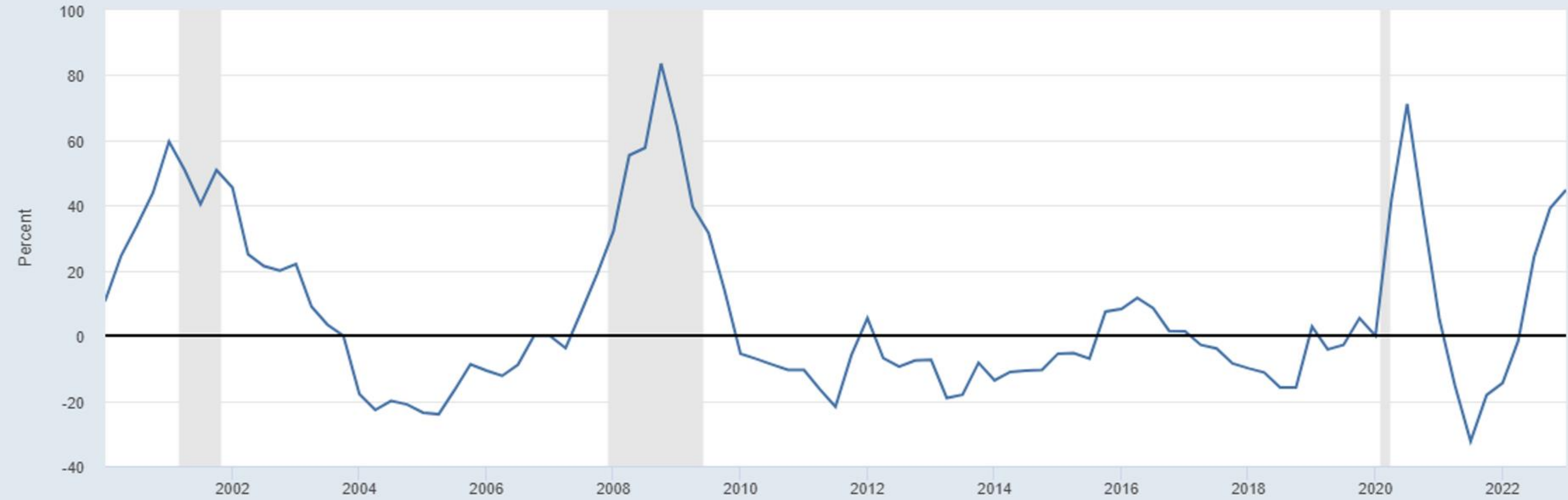
Submarket Grading	
Description	BTR Submarket Distribution
Most Desirable	24%
More Desirable	25%
Median Desirability	24%
Less Desirable/More Affordable	20%
Least Desirable/Most Affordable	7%

1) This excludes Redwood. Vast majority of its 125 projects do not offer pools, gated entrances, clubhouse, and/or fitness centers

National Economic Outlook Recession Watch



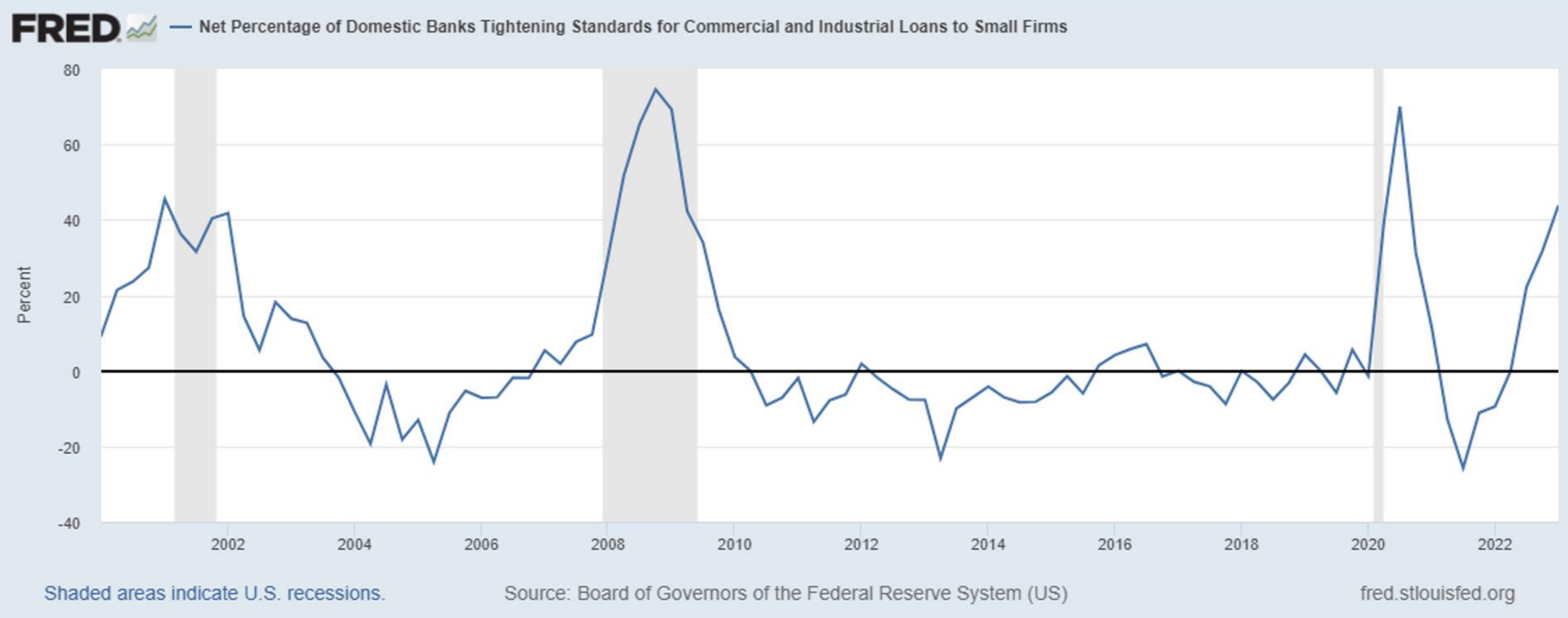
— Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Large and Middle-Market Firms

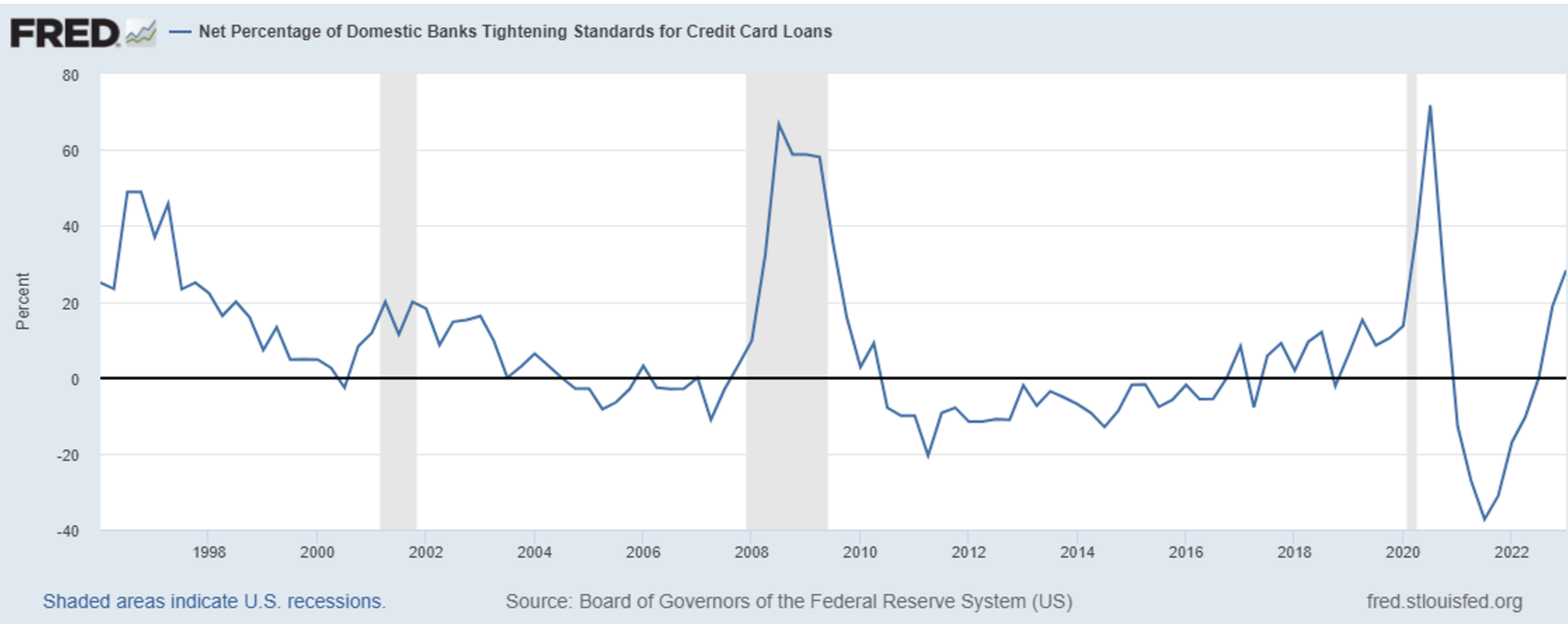


Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

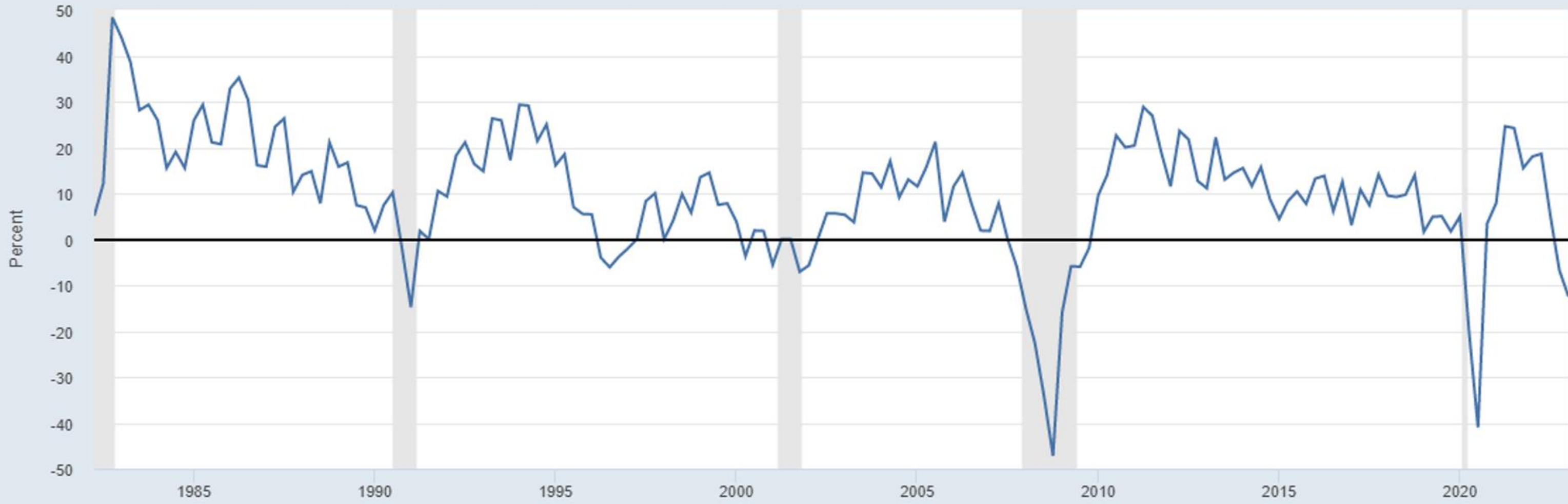
fred.stlouisfed.org





FRED

— Net Percentage of Domestic Banks Reporting Increased Willingness to Make Consumer Installment Loans

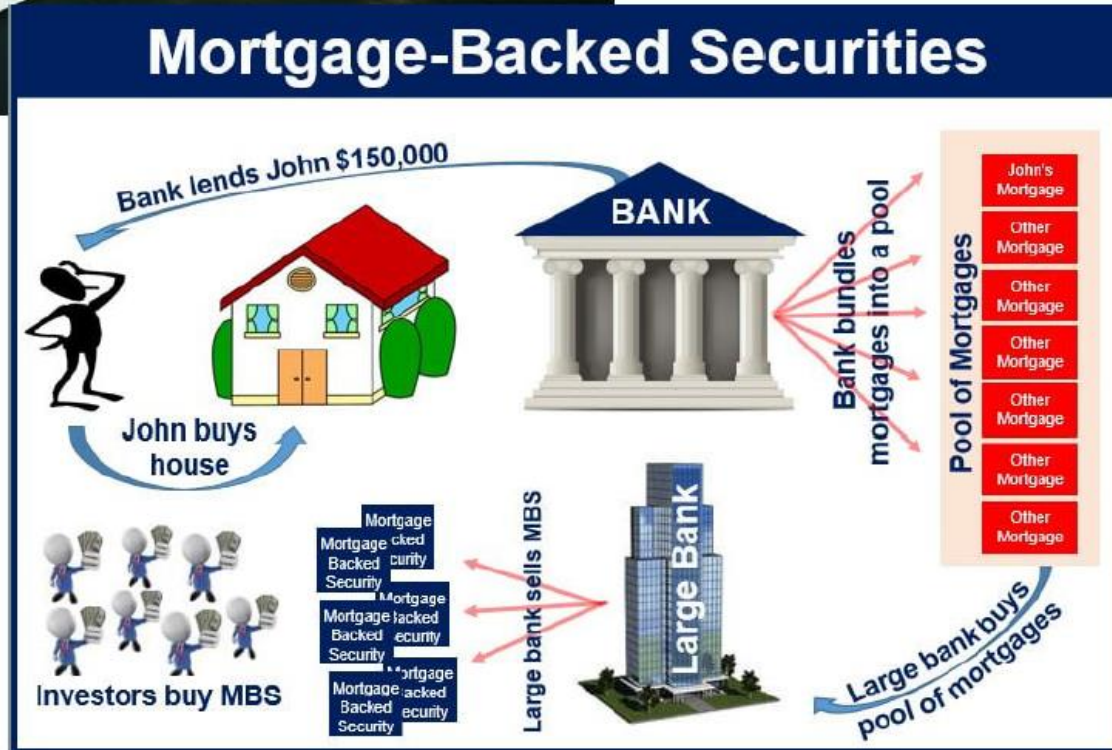


Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

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Due to rising rates, all fixed cash flow streams are worth much less than they used to be.



Who owns all these fixed cash flows, and what happens if they need to sell or refinance?



Pension Funds
Retirees



Federal, State & Local Governments



A multi-year commercial real estate downturn is likely just getting started, led by office buildings.

Blackstone's \$270 Million Loan Goes To Special Servicing As Some Big Owners Struggle

Debt Is Backed by 11 Manhattan Apartment Rental Properties Amid Higher Interest Rates



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REAL ESTATE | PROPERTY REPORT

Pimco Is Saddled With a \$1.7 Billion Default in Office-Market Meltdown

Columbia Property Trust feels the fallout of rising interest rates



Columbia Property Trust's portfolio of office buildings includes properties in San Francisco. PHOTO: SHELBY KNOWLES FOR THE WALL STREET JOURNAL

By [Peter Grant](#) [Follow](#) and [Konrad Putzier](#) [Follow](#)
Feb. 28, 2023 7:00 am ET

We expect the banks to severely curtail development and real estate lending this year, which will slow the economy.



This is what Jay Powell wants, in order to slow inflation.



We expect pension funds and insurance companies to slow their investments in real estate too.



This is also what Jay Powell wants – to slow the constructing industry to increase unemployment and reduce inflation.



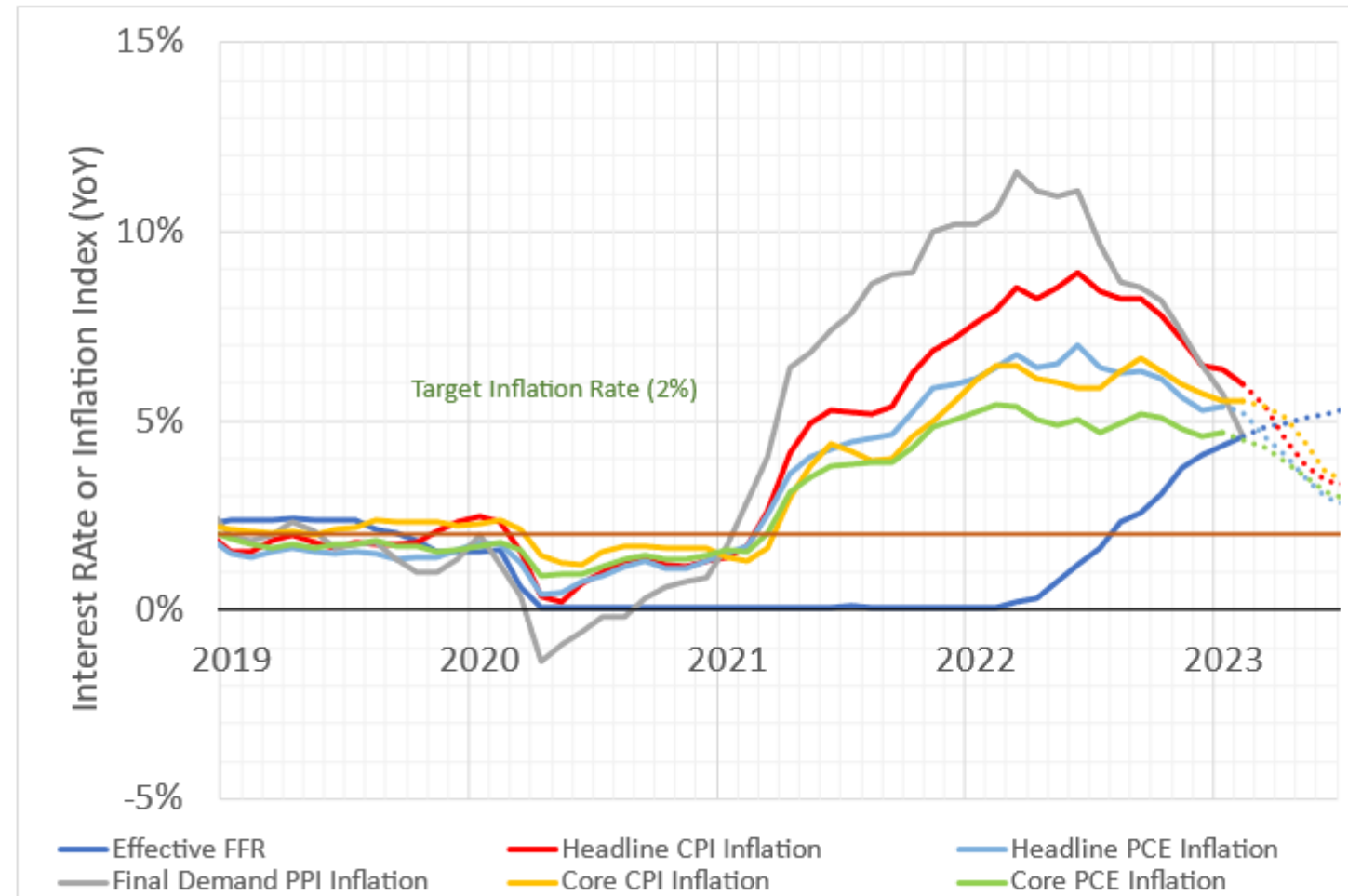
But he does not want these institutions to fail and cause an economic collapse.



Inflation

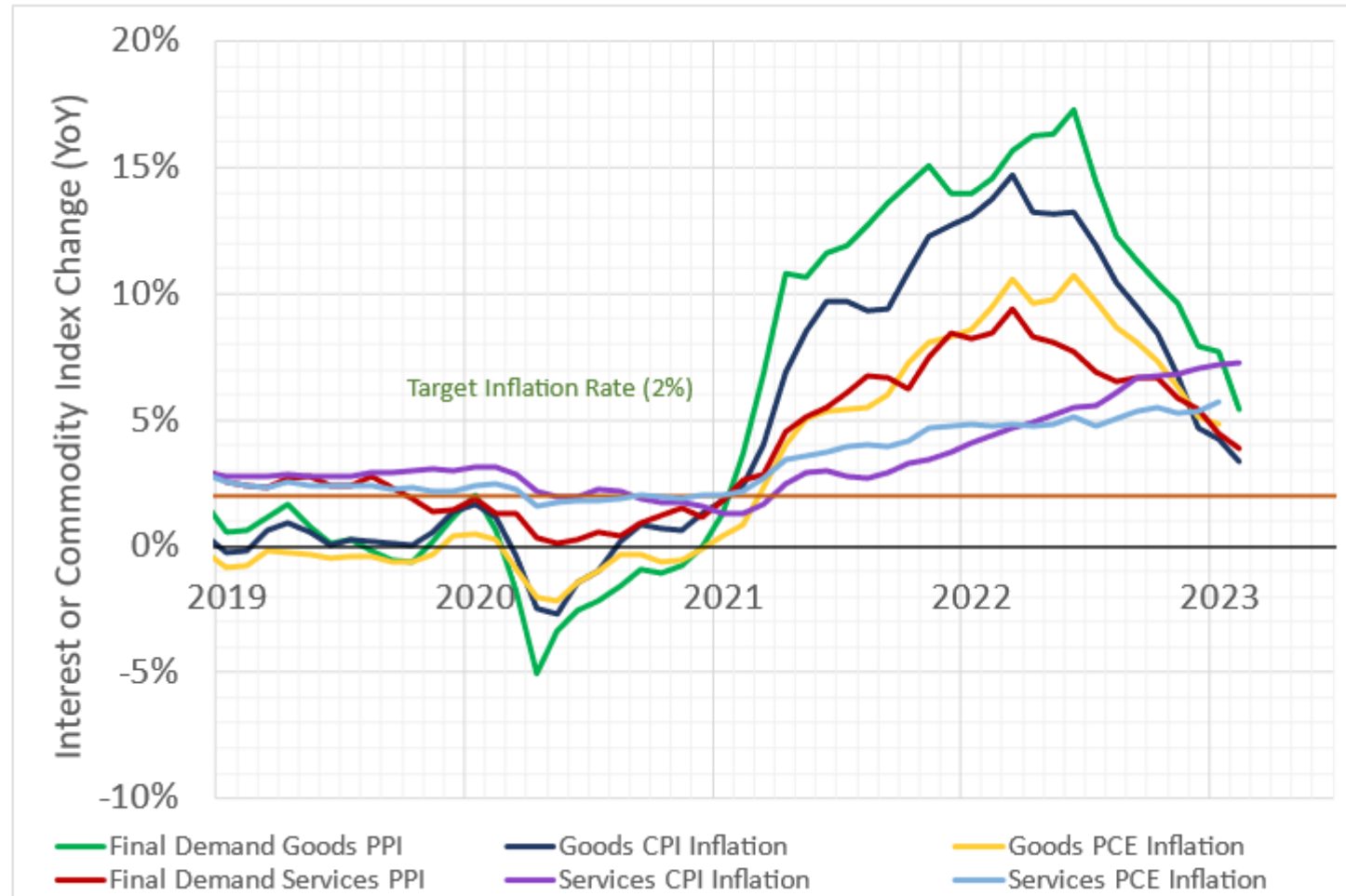
The Federal Reserve and Financial Market Quandary

- Core CPI inflation has fallen to 5.5%
- Core PCE inflation has leveled off at about 4.7%
- Final Demand PPI inflation has fallen rapidly to 4.6%
- Traders expect the EFR to be up 0.75% by July
- The Philadelphia Fed's 1Q professional forecasters survey shows inflation at 3-4% at mid year



Federal Reserve and Market Quandary – Deeper Look

- Goods inflation has fallen rapidly and is expected to continue this trend to meet target inflation near term
- Services inflation is well above target and still rising
- The strong employment situation should tolerate additional rate increases
- Additional FFR increases are needed near term

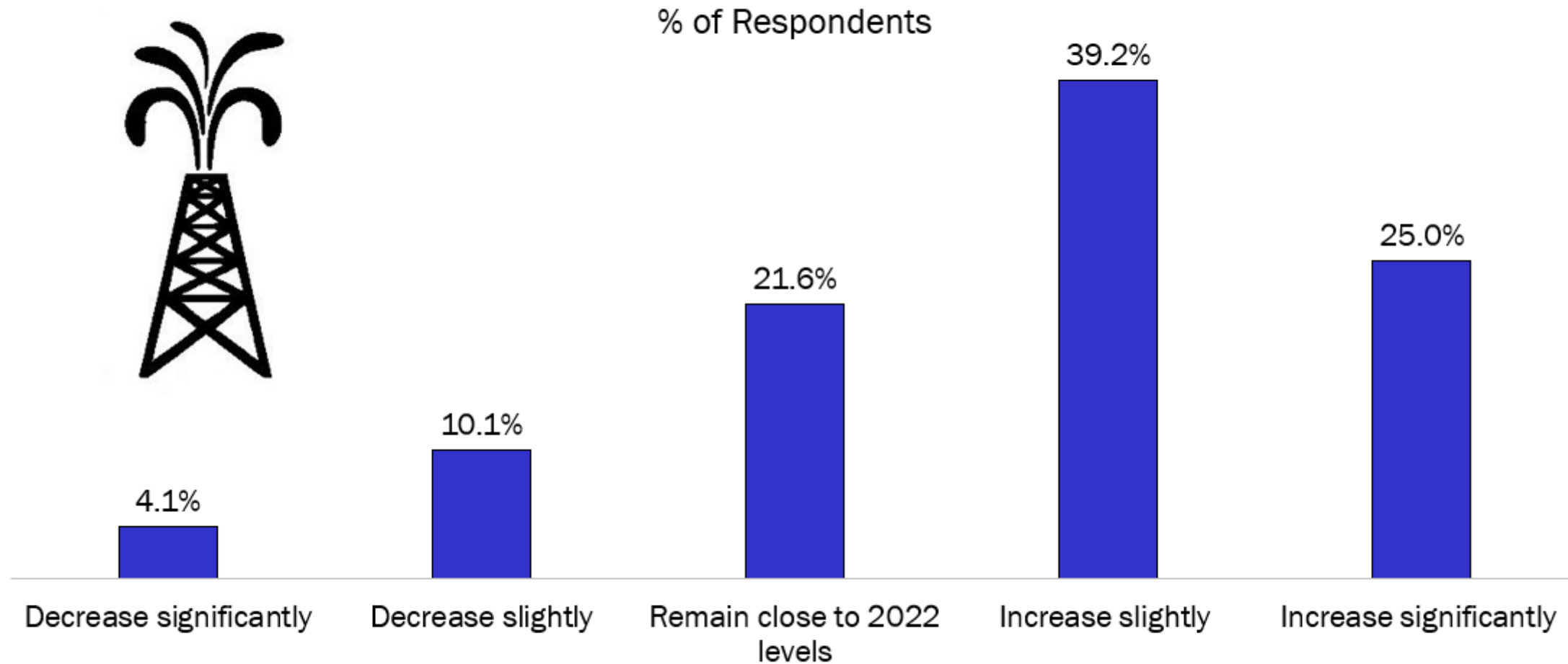


Conclusions

Net Gains/Losses, Most Populous U.S. Metros

Rank	Metro	Population as of 7/1/22	Change, '21 - '22	
			#	%
1	New York	19,617,869	-156,517	-0.8
2	Los Angeles	12,872,322	-100,525	-0.8
3	Chicago	9,441,957	-77,581	-0.8
4	Dallas-Fort Worth	7,943,685	170,396	2.2
5	Houston	7,340,118	124,281	1.7
6	Washington	6,373,756	8,849	0.1
7	Philadelphia	6,241,164	-12,156	-0.2
8	Atlanta	6,222,106	78,968	1.3
9	Miami	6,139,340	29,967	0.5
10	Phoenix	5,015,678	72,841	1.5

Expectations for your firm's capital spending in '23 v '22?



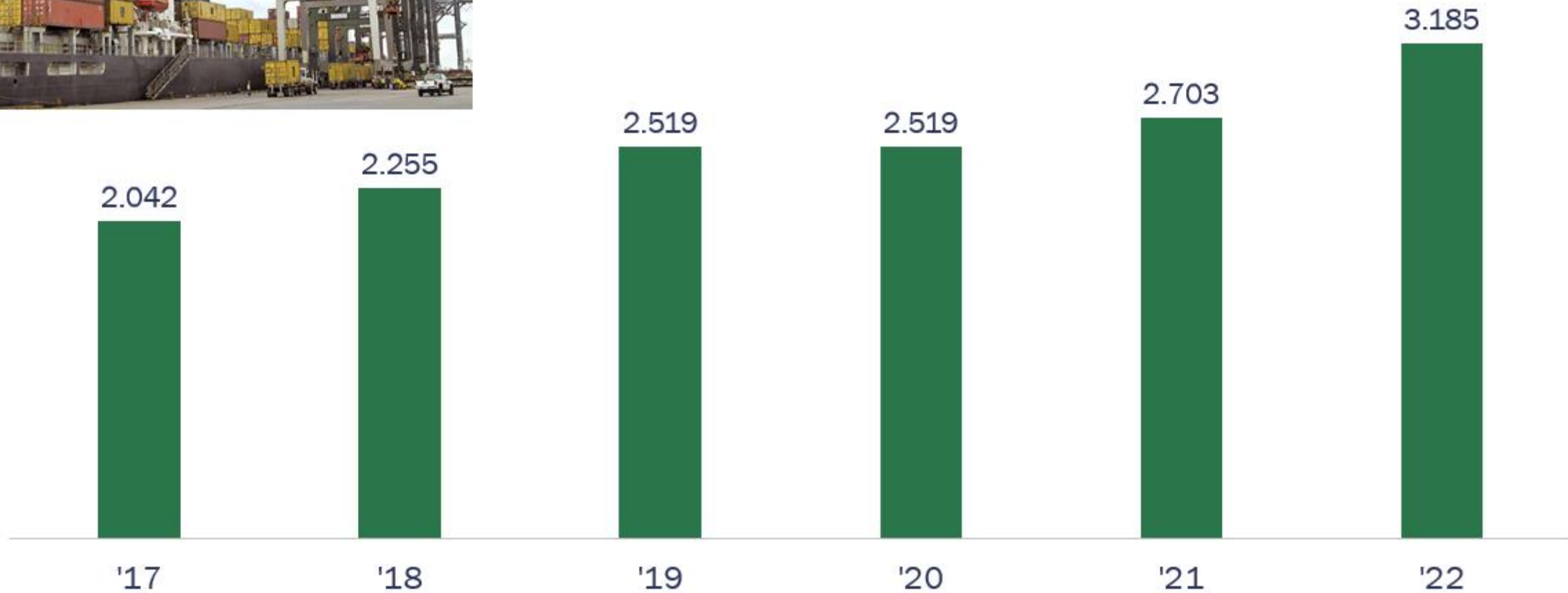
Source: Federal Reserve Bank of Dallas

* Based on a survey of executives from 95 exploration and production firms and 53 oil and gas support services firms conducted December '22.



Port Houston Container Traffic

Loaded TEUs, Millions



Source: Port of Houston

Texas Medical Center

TMC at a Glance

Home to the **world's largest children's hospital & world's largest cancer hospital**. TMC delivers one baby every 20 minutes, resulting in approximately 26,280 births per calendar year. TMC begins one surgery every three minutes

10M

patient encounters per year

180K+

annual surgeries

750K

ER visits per year

9.2K

Total patient beds

50M

developed square feed

13.6K+

total heart surgeries

\$3B

in construction projects underway

106K+

total employees

8th

largest business district in the U.S.

2023 Houston Forecast:

- 2023 Job Growth 45,000
- Resales 90,100
- Builders have found a price floor
- New Home Sales 38,000
 - Value Proposition